

" C O P Y "

See Question

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7 Aug. 1943.

Office of the General Counsel

Taxes on Quarters and Living Allowances of
Employees Stationed Abroad

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1. Please refer to Mr. [redacted] letter to Lt. (jg) [redacted] dated May 3, 1943, and Lt. (jg) [redacted] memorandum to Commander [redacted], dated May 12, 1943, concerning the above matter.

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2. This office has been informed by the Bureau of Internal Revenue (per E. J. Rudy, Practice and Procedure Division, Income Tax Unit) that the "living and quarters" allowance granted to employees stationed abroad (reference: Admin. Instr. No. 3, Supp. 1, Jan. 20, 1943) is considered to be taxable income.

3. The rule that a "rent allowance" based upon actual expenditure by the employee is not taxable (see G.C.M. 14710, 14836, pp. 44, 45, Int. Rev. Cumulative Bulletin XIV-1) is not applicable here. It is usually held that where an allowance is calculated to compensate an employee for any increased cost of living, such allowance constitutes taxable income (see G.C.M. 12300, p. 36, Int. Rev. Cumulative Bulletin, Dec. 1933). Mr. Rudy informed this office that a situation similar to the instant case was recently presented by the Office of the Coordinator of Inter-American Affairs to the Bureau of Internal Revenue, which ruled that the "living and quarters" allowance constituted taxable income.

4. In view of the above considerations, this office does not recommend the written submission of the matter to Internal Revenue for formal determination. However, if the London office believes that such a step should be taken, please do not hesitate to call upon us to prepare the presentation.

5. The file in this matter is returned herewith.

Ens. J. E. D.

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cc--Lt. (jg)

APPROVED:

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Major, A.U.S.,
General Counsel.